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Is there a new way to calculate my home office deduction?

Yes, but first it's important to understand what hasn't changed. To qualify for an income tax deduction for home office expenses, the IRS still requires that you meet two tests--the place of business test and the exclusive and regular use test.

To pass the place of business test, you must show that you use a portion of your home as the principal place of business for your trade or business, or a place where you regularly meet with clients, customers, or patients. In the case of a separate structure that isn't attached to your dwelling unit, you must show that you use it in connection with your trade or business (i.e., it needn't be your principal place of business).

The exclusive and regular use test requires that you use that portion of your home both exclusively for business and on a regular basis.

Prior to 2013, in order to claim the home office deduction, you also needed to determine the actual expenses you incurred in maintaining your home office (for example, mortgage interest, insurance, utilities, repairs, and depreciation).

However, beginning with the 2013 tax year, you're able to use an optional "safe harbor" method of calculating your home office deduction. Instead of determining and allocating actual expenses, under the safe harbor method you calculate your deduction by multiplying the square footage of your home office (up to a maximum of 300 square feet) by $5. Since square footage is capped at 300, the maximum deduction available under the safe harbor method is $1,500.

Each year, you can choose whether to use the safe harbor method of calculating the deduction or to use actual expenses. If you use the new safe harbor method:

- You'll still be able to deduct mortgage interest and real estate taxes on Schedule A if you itemize deductions.
- You cannot depreciate the part of your home you use for business. (If you use the safe harbor method in one year, and in a later year use actual expenses, special rules will apply in calculating depreciation.)

How do I figure the tax on the sale of my home?

In general, when you sell your home any amount you receive over your cost basis (what you paid for the home, plus capital improvements, plus the costs of selling the home) is subject to capital gains taxes. However, if you owned and used the home as your principal residence for a total of two out of the five years before the sale (the two years do not have to be consecutive), you may be able to exclude from federal income tax up to $250,000 (up to $500,000 if you're married and file a joint return) of the capital gain when you sell your home. You can use this exclusion only once every two years, and the exclusion does not apply to vacation homes and pure investment properties.

For example, Mr. and Mrs. Jones bought a home 20 years ago for $80,000. They've used it as their principal home ever since. This year, they sell the house for $765,000, realizing a capital gain of $613,000 ($765,000 selling price minus a $42,000 broker's fee, minus the original $80,000 purchase price, minus $30,000 worth of capital improvements they've made over the years). The Joneses, who file jointly, and are in the 28% marginal tax bracket, can exclude $500,000 of capital gain realized on the sale of their home. Thus, their tax on the sale is only $16,950 ($613,000 gain minus the $500,000 exemption multiplied by the 15% long-term capital gains tax rate).

What if you don't meet the two-out-of-five-years requirement? Or you used the capital gain exclusion within the past two years for a different principal residence? You may still qualify for a partial exemption, assuming that your home sale was due to a change in place of employment, health reasons, or certain other unforeseen circumstances.

Special rules may apply in the following cases:

- You sell vacant land adjacent to your residence
- Your residence is owned by a trust
- Your residence contained a home office or was otherwise used for business purposes
- You rented part of your residence to tenants
- You owned your residence jointly with an unmarried taxpayer
- You sell your residence within two years of your spouse's death
- You're a member of the uniformed services

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